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Report Highlights: The Vietnamese wood industry (primarily furniture for export markets) is expected to annually grow by, at least, 10% over the next decade. Vietnam relies heavily on timber imports, and U.S. hardwood exports reached new record highs in 2001. Although the value of U.S. wood exports is relatively low (roughly \$5-6 million), Vietnam is expected to be a rapidly growing market.

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Vietnam Forest Outlook

According to Vietnam's Ministry of Agricultural and Rural Development (MARD), Vietnam's total forest area is 10.916 million hectares (Mha), of which, 9.444 Mha are classified as natural forest, and 1.471 Mha are planted forest areas. About 82% of the natural forest is timber forest (7,780 Tha) while the remaining natural forest is covered by not trees like bamboo and rattan.

Vietnam's forests are grouped into three categories: protected forests, special forests, and productive forests. Protected forest areas, where logging is strictly controlled, are those that protect watersheds, reservoirs, and similar areas. Special forest areas include parks, nature reserves, and other wooded areas protected from logging. Productive forests are those areas where commercial logging is allowed. Of the total forest area, the protected forests account for 49%; special forests about 14% and the remaining 37% (about 4.040 Mha) are classified as productive forests, including 3.168 Mha of natural forest and 0.872 Mha of planted forest (see table 1).

Now, according to official Government statistics, the forest cover ratio (forest / total land area) is about 33%, an improvement of 5% compared with the rate in 1998. The ongoing five million hectare reforestation program (discussed below) aims to increase the forest cover ratio to 43% by the year 2010.

Table 1: Vietnam Forest Area by Forest Categories

Unit: Thousand hectare (Tha)

	Total	Protected forest	Special forest	Productive forest
Natural forest	9,444	4,813	1,464	3,168
<i>of which timber forest</i>	7,780	3,980	1,220	2,579
Planted forest	1,471	538	61	872
Total forest area	10,916	5,351	1,525	4,040

Source: MARD

Provinces with the highest forest cover are Dac Lak (1.2 Mha); Gia Lai (more than 0.7 Mha); Kon Tum (0.6 Mha) and Lam Dong (0.6 Mha).

Vietnam's Wood Production Capacities

Vietnam's wood reserves are about 751 million cubic meters (cu-m), of which 261 million cu-m comes from productive forest (see table 2). Planted forests also make a small contribution to the total reserves, accounting 8% of the total forest production. Planted forests are dominated by fast-growing forest species such as eucalyptus, motaleuca, acacia, bamboo, and pine trees. The current timber production from planted forest areas is about three million cu-m with 85% of that used for the paper industry.

Table 2: Vietnam Forest Timber Production Capacities*Unit: Thousand Cubic Meter*

	Total	Protected forest	Special forest	Productive forest
Natural forest	720,890	342,128	136,526	240,982
<i>of which timber forest</i>	<i>666,164</i>	<i>316,970</i>	<i>124,378</i>	<i>223,561</i>
Planted forest	30,578	9,172	1,168	20,205
Total forest capacity	751,468	351,300	137,694	261,187

*Source: MARD***Timber from Natural Forests and Planted Forests**

During the 1960-1985 period, commercial logging averaged about two million cu-m per annum (excluding all the trees cut for firewood by subsistence farmers). That rate, everyone agreed, was unsustainable. As a result, the Government of Vietnam's (GOV) implemented new forest management and logging control policies, which dropped commercial timber production to about one million cu-m per year between 1985 and 1990, and down further to 0.52 and 0.45 million cu-m in 1997 and 1998, respectively (see table 3). Despite the rapid decline in logging, the GOV (and most other observers) is concerned that even the present rates are above sustainable levels.

Since 1999, the GOV has set quotas for wood cut from natural forests. The annual quota for natural wood is currently set at 300 thousand cu-m.

Table 3: Vietnam Timber Exploitation from Natural Forest.

<u>Year</u>	<u>Timber production</u> (thousand cu-m/year)
1960-1985	2,000
1985-1990	1,000
1990-1995	750
1996	620
1997	520
1998	450
1999	400
2000	350
2001	300

Source: MARD

Each year MARD allocates portions of the natural wood quota to provinces based on the size of their natural forest areas. The four Central Highlands provinces (Dac Lak, Kon Tum, Gia Lai and Lam Dong) receive more than 60% of the total quota as they own the biggest natural forests in the country.

Wood production from planted forest is estimated at three million cu-m but more than 95% of the planted wood is used in the paper, plywood, and house construction industries due to the low-quality wood produced by the fast-growing trees used in most planted forests. Of the planted forests, only a small amount of the eucalyptus and motaleuca wood can be used to produce high-value wood products.

Illegal wood supply

It is hard to estimate the amount of wood illegally cut from the natural forests. According to MARD, in the first nine months of 2001, the quantity of illegal timber logs (wrong size, location, or types of trees cut) and sawn lumber from illegally-cut trees found by the Forest Protection Department were about 24 thousand cu-m and 20 thousand cu-m, respectively (total of 44 thousand cu-m). Even though Laos has imposed a ban on log wood exports (in an attempt to constrain illegal cutting and to develop a domestic wood processing industry), it is reported that the supply of illegally logged wood from Laos is still relatively large. On a recent trip to the Central Highland provinces, Post counted more than 50 trucks with large diameter logs coming along the road from Gia Lai to Kontum (a drive of only 60 minutes). It is likely that most of those trucks were carrying wood from non-Vietnamese forests.

Based on the number of illegal logging cases found, and various insider guesses, some wood traders estimate that the current illegal wood supply is still high at 200-250 thousand cu-m. per year.

Timber and Wood Products Imports

Vietnam's wood processing sector relies on imports of wood timber. Although accurate wood timber import data are not available, Post (after discussions with wood traders) estimates 2001 wood imports (legal and otherwise) were about 470 thousand cu-m, a slight drop of 6% compared with 2000's level due to lower exports of wood products to overseas markets.

Myanmar, Laos, Indonesia, Malaysia, and New Zealand are the key wood suppliers to Vietnam. Before Laos set up the ban (in 2001), Laos was the biggest wood log supplier to Vietnam. Following the ban, Laos is now the largest supplier of semiprocessed wood, and, unfortunately, of illegally logged wood.

In addition to the ban in Laos, traders expect Indonesia and Malaysia to also ban exports of raw timber. Clearly Vietnam cannot rely on the neighboring Asian countries for a consistent supply of timber. Vietnamese wood processors are very keen to search for alternative wood suppliers, such as New Zealand, Russia and the United States. In July 2001, a Vietnamese wood trade delegation visited New Zealand to discuss wood supply - demand cooperation.

Besides the imports of solid timber, Vietnam is also an importer of particle board, plywood, and laminated wood. It is estimated that Vietnam imported (in 2001) more than 200 thousand cu-m of manufactured wood products from Indonesia, Malaysia and Australia. Moreover, the paper industry is also hungry for pulp and wood chips. According to one big trading house in Switzerland, Vietnamese pulp imports are more than 120,000 metric tons.

Although the 2001 data is sketchy, the major Vietnamese seaports record some of the imports. The major ports of Ho Chi Minh City (HCMC) and Dong Nai estimate imports were roughly 250 thousand cu-m per annual; Qui Nhon / Binh Dinh about 100 thousand cu-m per annual; Da Nang about 25 thousand cu-m per annual, and My Thoi / An Giang about 75 thousand cu-m.

Of the three major sectors (solid wood, manufactured wood and chip wood), the remainder of this report will focus on the solid wood used by the wood-processing industry producing high-value wooden products (mostly furniture) for export markets.

Timber supply

Table 4 presents wood timber supply estimates for Vietnam. Total wood timber supply consists of wood exploited from natural forest (including exploitation by quota and illegal ones), imported wood (official importation and illegal sources) and some good quality wood from planted forest. Post uses unknown supply to address timber supply from illegal sources and limited timber production from planted forests.

Table 4: Vietnam Wood Timber Supply for Wood Processing Industry by years

(Unit: Million cu-m)

Year	Legal timber production	Legal Imports Recordable	Unknown Supply (estimated)	Total supply
1998	0.450	0.145	0.355	0.950
1999	0.400	0.160	0.640	1.200
2000	0.350	0.500	0.500	1.350
2001 (estimated)	0.300	0.470	0.300	1.070

Source: MARD ; Port Authorities and Traders.

Timber Demand for Wood Processing Industry

As analyzed above, the domestic timber supply is well below timber demand due to strict control of forest logging and the limited amount of wood available from recently planted forests. Therefore, the timber demanded for high-value wooden products (indoor or outdoor furniture, floorings, handicrafts, interior decorated wood items, etc.) is mainly supplied by imported wood. Currently, the annual demand for those high-value wooden products (for both export and domestic use) is estimated at 1.0-1.2 million cu-m.

According to MARD, Vietnam is home to nearly 1,200 wooden product-processing companies with a combined capacity of about 2.0 million cubic meters of wood. As one would expect, the actual working capacity of the sector is about 50%.

The majority of the wood processors are located in Ho Chi Minh City (HCMC), Binh Duong, Dong Nai, Binh Dinh, Da Nang and the central highlands (Dac Lak and Gia Lai) provinces. While garden (outdoor) furniture manufacturers are concentrated more in Binh Dinh, Da Nang and Central Highlands, the indoor furniture makers and wooden interior decoration industries are mainly located in HCMC, Hanoi, Binh Duong, and Dong Nai. In

In addition to all the local firms, the wood processing industry also gets some expertise from about 60 foreign invested enterprises (ranging from joint ventures to fully foreign-owned operations).

Under the general holding company of the Vietnam National Forest Products Corporation (VINAFOR), the Ministry of Agriculture and Rural Development (MARD), operates roughly 50 state-owned enterprises (SOEs) in the wood-processing sector.

HCMC is the location of the biggest number of wood processing companies with more than 170 companies, which annually consume about 400 -450 thousand cu-m of wood.

To reduce the pressure on natural forests and to support the wood processing industry, the GOV has been encouraging wood imports by exempting import duties on wood logs and lumber, and also running several large reforestation and afforestation campaigns (discussed below).

Since the wooden furniture industry continues to grow by 10% per annual, timber wood demand is forecasted to increase rapidly in the coming years. It is reported that Vietnam will need about three million cu-m of timber for wood works by 2005, and an additional 4.5 million cu-m for the paper industry and 1.5 million cu-m for plywood products.

Wood Products for Export Markets Consume More Wood than the Domestic Market

In 2001, the export-oriented wood processing industry consumed about 800 thousand cu-m of wood timber to produce high-value export items (see table 5), accounting for 70% - 75 % of total wood demand in wood processing industry.

Table 5: Estimates -- Wood used to produce wooden products for export.

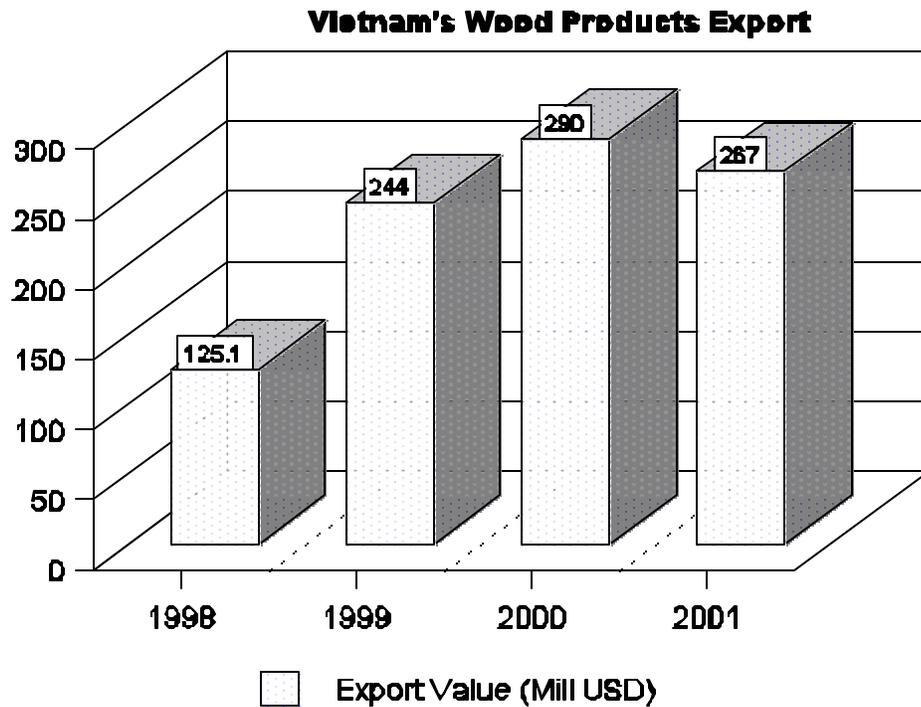
For outdoor furniture	:	375 thousand cu-m
For indoor furniture	:	350 thousand cu-m
For fine art (handicraft) wood products	:	75 thousand cu-m

Total wood timber used for export	:	800 thousand cu-m

Vietnam has been successfully exporting outdoor furniture to Europe (key markets are Denmark, Norway, Sweden, Holland, and France) and Australia. The destinations for Vietnam's indoor furniture are nearby Asian countries, such as Taiwan, Hong Kong and Japan. Fine-art wooden products are also important export items to markets in several European countries, Asia, Middle East and North America.

Vietnam's Exports of Wood Products

Vietnam has quickly turned from being an exporter of raw timber to becoming an exporter of wooden furniture and other wood products (mostly produced from imported wood). Vietnam's finished wood products exports have been growing significantly since 1998 and reached \$290 million in 2000. In 2001, the exports are estimated at roughly \$270 million, a slight reduction due to the global economic downturn. The chart below



shows export turnover of Vietnam's wooden products since 1998. The GVN has set export 'targets' for 2005 and 2010 at \$500 million and \$1 billion, respectively. However, Vietnam's export-oriented wood processing sector is facing strong competition from China and

Indonesia.

Vietnam is a Promising Market for US Hardwood Lumber

In calendar year 2000, Vietnam imported U.S. wood products worth \$1.639 million while wood product exports from Vietnam to the United States were about \$1.004 million (see tables 6 & 7). In the first ten months of 2001, exports of U.S. wood products to Vietnam reached new records of \$5.33 million, about 357% over last year's pace.

Exports of U.S. hardwoods to Vietnam increased remarkably in the first ten months of 2001. Total hardwood lumber shipped to Vietnam was 7,686 thousand cu-m, a dramatic increase of 521% compared with the same period of last year. U.S. hardwood lumber is becoming well known as an excellent quality wood for production of indoor furniture and wooden interior decoration items.

Table 6: US Wood Products Exports to Vietnam

	Unit	1998	1999	2000	2001 (Jan-Oct)
HARDWOOD LUMBER	Cu-m	614	2,145	1,735	7,686
	\$ 1,000	351	927	789	3,397
PANEL/PLYWOOD PRODUCTS	Cu-m	28	N.A.	192	76
	\$ 1,000	14	35	164	602
SOFT/TREATED LUMBER	Cu-m	0	132	88	0
	\$ 1,000	0	37	32	0
LOG AND CHIPS	MT	0	4,526	N.A.	N.A.
	\$ 1,000	0	574	301	1,062
OTHER WOOD PRODUCTS	TM	N.A.	N.A.	N.A.	N.A.
	\$ 1,000	344	193	353	270
TOTAL	\$ 1,000	709	1,766	1,639	5,331

N.A.: not available

Source: Bico and U.S. Trade Data

American Hardwood Export Council (AHEC) activity in Vietnam

To create a better understanding of U.S. hardwoods, AHEC and FAS/Vietnam conducted two seminars in Hanoi and HCMC on the utilization and grading standards of U.S. hardwoods. The seminars attracted mass attendance of 50 wood processing companies in Hanoi, and more than 150 wood companies in HCMC.

Ongoing efforts by AHEC, various U.S. state organizations, and U.S. private exporters will continue to pique the interest of Vietnamese wood processing firms. Over the next 10 years, Vietnam should become a very good market for U.S. hardwood exporters.

Vietnam Targets U.S. Market for High-Value Wood Products

As result of the Bilateral Trade Agreement (BTA) between Vietnam and the United States, effective from December 10, 2001, Vietnam will enjoy Normal Trade Relation status from the United States. U.S. import

tariffs on wood products from Vietnam will drop from 25% - 40% to 0% - 5%. As a result of that large drop in tariffs, Vietnam's wood sector is planning to boost exports to the United States in 2002. Key products include outdoor and indoor furniture, wooden floorings, fine art wood products, rattan and bamboo products.

It is reported that before the BTA was ratified by the two countries, Vietnamese companies were shipping many containers of garden and indoor furniture to the United States via third countries, such as Taiwan, Singapore. Vietnamese furniture has already been featured in retailing outlets in California, Texas, and Washington, D.C.

Table 7: US Imports of Wood Products from Vietnam

	Unit	1998	1999	2000	2001 (Jan-Oct)
LOG AND CHIPS	Cu-m	106	108	149	0
	\$ 1,000	7	12	11	0
OTHER WOOD PRODUCT	MT	N.A.	N.A.	N.A.	N.A.
	\$ 1,000	641	594	993	1,119
TOTAL	\$ 1,000	648	606	1,004	1,119

N.A.: not available

Source: Bico

The Government's Plan for the Wood Processing Industry

As noted above, the GOV hopes the wood processing industry will earn \$1.0 billion by 2010 from exports of wooden products. According to their master plan, the GOV will give greater assistance to the industry to achieve an annual 10% growth over the next ten years. More investments will be pumped into the industry to upgrade equipment and technologies to enable it to produce and diversify high quality wooden products for exports and domestic use. HCMC plans to build eight wood processing plants equipped with modern technology to enable HCMC to register an annual export sales of \$150 million in the next decade.

In the period of 2001-2005, the investment will also focus on production of artificial wood plank products with total capacities of 482 thousand cu-m per year and installing wood ware production lines with a combined capacity of 50 thousand cu-m of wood products per year. In the next period of 2005-2010, other larger artificial wood plants (total capacity of 618 thousand cu-m) and other wood ware production lines (total capacity of 150 thousand cu-m) will be constructed.

Vietnam is also keen to invest in production of wood for the paper industry. In the master plan, Vietnam will build 11 new pulp factories by 2005. These factories will have a projected capacity of around 1.5 million tons of pulp per year, and are necessary to increase pulp production of two million tons by 2010. Moreover, Vietnam will also have 16 wood chip mills which can produce 350 thousand cu-m of wood chips for paper industry by 2005. The wood chip production will increase to 900 thousand cu-m by 2010.

Post quite frankly doubts if the GOV's plan will actually be achieved. But, without a doubt, furniture exports will rise substantially. However, we, feel that most of that increase will come from the growing number of private-sector companies and from various foreign-owned or foreign-led joint venture companies.

Vietnam's Five Million hectare Forest Program

In 1999, Vietnam launched a 5 million-hectare forest program on which to nurse 2 million hectares of natural forest, plant 1 million hectares of fruit trees, and 2 million hectares of new forests. The program was to be implemented over a 10-year period from 2000 to 2010. Objectives of the 5 million hectare program are (1) to increase the forest cover ratio from 33% to 44%, (2) develop timber wood supply for the paper industry, and (3) develop domestic supplies of high quality wood for the wood processing industry.

Unfortunately, the 5 million-hectare program got off to a slow start. Due to financial constraints, the afforestation and reforestation results for the first two years (2000 and 2001) were very much behind schedule. The main constraint was money. The planned investment of Vietnam dong (VND) 2 million per hectare (roughly \$135 per hectare) was too low compared with the actual costs of VND 7-8 million required to plant one hectare of new forest.

In 2002, to accelerate the program the GOV approved an increase in investment capital to VND 550 billion (\$36.5 million), a sharp increase compared with 2001's total investment level (VND 216 billion). Appropriate policies like long term land rental (over 50 years), low land tax, low interest rate loan are also offered for investors.

Many bilateral donors and NGOs are assisting the 5 million-hectare program, but it still faces an up-hill battle considering the demand for lumber, the demand for firewood, and the rising population.